STATEMENT ON **RISK MANAGEMENT**

Uncertainties about the effects or implications of any one activity (internal or external), coupled with geopolitics, economic slowdown, change in political landscape, and any form of pandemic, requires the understanding of new risks to strengthen EPF's existing risk management process. Exercises like Scenario Analysis/Impact Assessment remain worthwhile to rationally assess some of the new uncertainties. Continuous strengthening of the organisation's governance structure, internal controls, and risk management framework are also key to address additional risks, if any.

OVERVIEW

2019 proved to be another challenging year for the EPF with changes in the political landscape, weak ringgit, and economic slowdown contributing to the market volatility that led to various events, which continue to shape the economic, financial, and risk landscape. Acknowledging this, the EPF continues to strengthen and enhance its robust risk management system to remain relevant and resilient ahead of the changing risk landscape to ensure that risks are managed effectively within the organisation.

THE RISK MANAGEMENT STRUCTURE

The EPF's risk management structure provides clear lines of responsibility and accountability for the risk management processes and outlines the principal risk management and control responsibilities. The EPF Board and Investment Panel oversee the organisation's overall risk management, and are assisted by the Board Risk Management Committee (BRMC) and Investment Panel Risk Committee (IPRC) to oversee all operational risk management activities, recommend the risk appetite, and allocate the risk budget.

EPF BOARD

The EPF Board is responsible for the overall organisation's risk management, except for activities related to investment decisions.

INVESTMENT PANEL (IP)

The IP is responsible for overseeing risk management pertaining to the EPF's investment decision-making, and defines the level of risks that the EPF is willing to tolerate through its Risk Appetite Statements, which form the basis of fund allocation for investment.

BOARD RISK MANAGEMENT COMMITTEE AND INVESTMENT PANEL RISK COMMITTEE

BOARD RISK MANAGEMENT COMMITTEE (BRMC)

The BRMC is responsible for assisting the Board in overseeing all operational risk management activities, except for activities pertaining to making investment decisions, and ensuring that the risk management process is in place and functioning effectively.

INVESTMENT PANEL RISK COMMITTEE (IPRC)

The IPRC is responsible for asisting the IP in recommending the risk appetite and appropriate allocation of risk budget. The IPRC is delegated with the responsibility to review and approve appropriate risk measurements, policies, processes, and limits to ensure their continued effectiveness.

DEDICATED COMMITTEES

MANAGEMENT OPERATIONS RISK COMMITTEE (MORC)

The MORC oversees, implements, and executes the EPF's operational risk management (which includes strategies, culture, structure, people, and processes) and to ensure that the risk management framework is implemented effectively throughout the organisation.

INVESTMENT SERVICES DEPARTMENT (ISD)

The ISD department is responsible for monitoring and compliance of all investment-related risk policies and limits.

MANAGEMENT RISK COMMITTEE (MRC)

The MRC is responsible for developing and reviewing risk policies and appropriate limits for managing the EPF's investment risks.

MANAGEMENT INVESTMENT COMMITTEE (MIC)

The MIC is responsible for evaluating and recommending investment proposals to the IP. It also evaluates and recommends investment strategies and performance of external fund managers.

RISK MANAGEMENT DEPARTMENT (RMD)

The RMD supports the MIC, MRC, MORC, IPRC, BRMC, and IP in all risk management matters covering investment risk, operational risk, risk measurement, independent assessment, and the monitoring and reporting of risk exposures.

DIVISIONS, DEPARTMENTS AND BRANCHES

All divisions, departments, and branches are responsible for managing risks in their respective functions on a day-to-day basis, as well as for escalating significant potential risks to the MORC via the RMD. Among the principal roles and responsibilities of these divisions, departments and branches are:

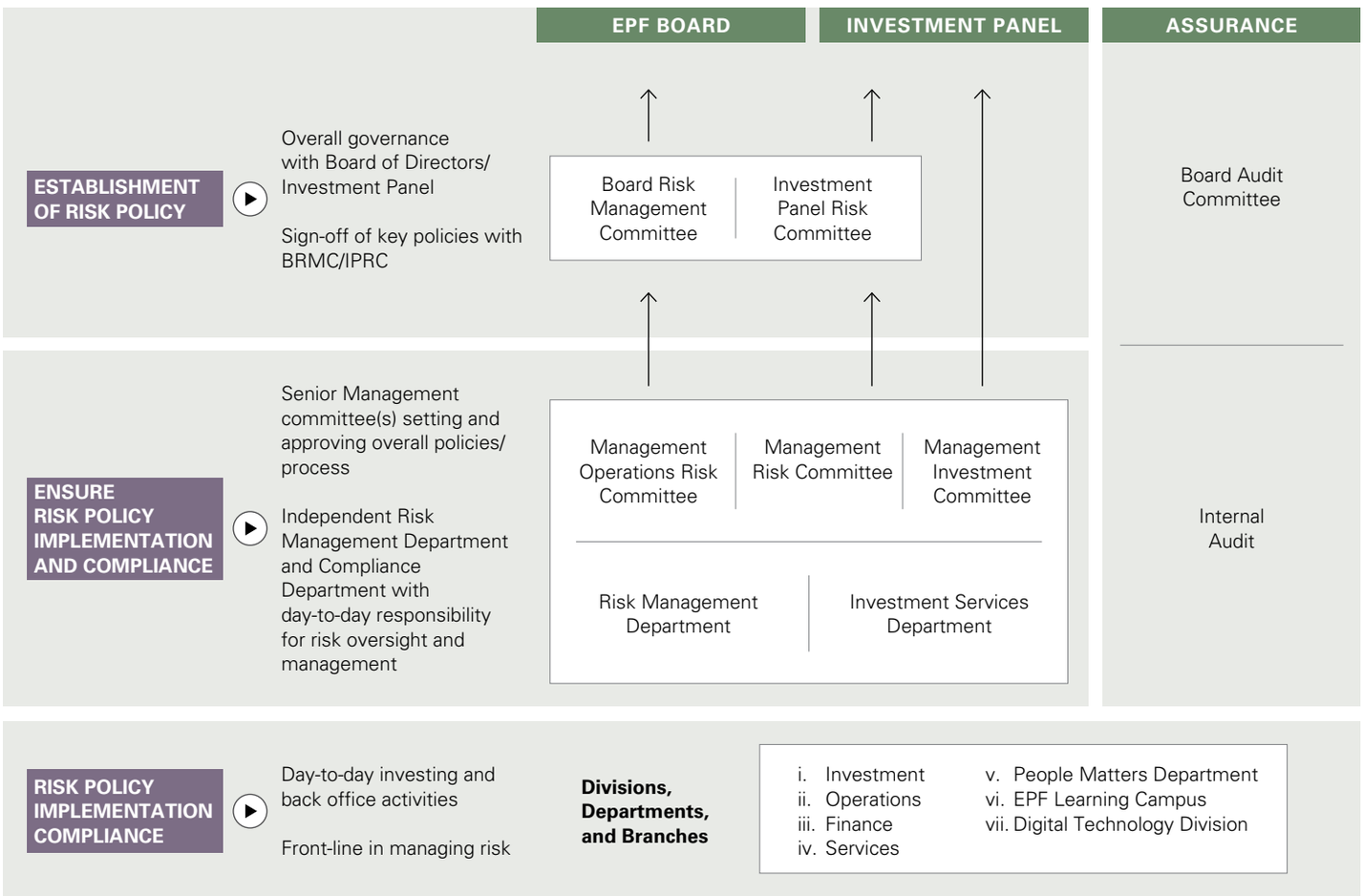
(a) Identify, assess, and manage risks;
(b) Constantly review their risk profiles to ensure relevancy and appropriateness;
(c) Update the risk status and level of risk management and controls;
(d) Develop and implement action plans to manage risks; and
(e) Adhere to risk management practices and guidelines

STATEMENT ON RISK MANAGEMENT

RISK MANAGEMENT GOVERNANCE

The EPF believes that a strong governance structure is important to ensure an effective and consistent implementation of risk management throughout the entire organisation. In achieving that, the EPF's risk governance places accountability and ownership between three lines of defence where departments, branches, and the Management constantly engage in healthy and productive discussions on key risk matters and processes, thus creating a robust risk-practising culture. To further support its risk governance structure, the EPF has also developed structured policies and procedures to address all key risk areas in the organisation.

The EPF Risk Governance Structure consists of three lines of defence as shown below:



RISK APPETITE

The EPF's risk appetite defines the amount, level, and type of risk that the EPF is able and willing to accept in pursuit of its strategic objectives. It also sets out the level of risk tolerance and limits to govern, manage, and control the EPF's risk-taking activities.

The Risk Appetite Statements in investment define the level of risks that the EPF is willing to tolerate and form the basis of the allocation of funds for investment. The asset allocation is regularly reviewed to ensure that funds are invested within the EPF's risk appetite.

ENTERPRISE RISK MANAGEMENT

Operational Risk Management

The Operational Risk Management (ORM) supports and enhances the EPF's activities in all of its operational areas as ORM is an integral part of the EPF's decision making process and corporate culture. The four key areas of the ORM are:

(a) Operational Risk Management Framework
(b) Operational Risk Management Methodology and Process
(c) Corporate Risk Scorecard
(d) Business Continuity Management

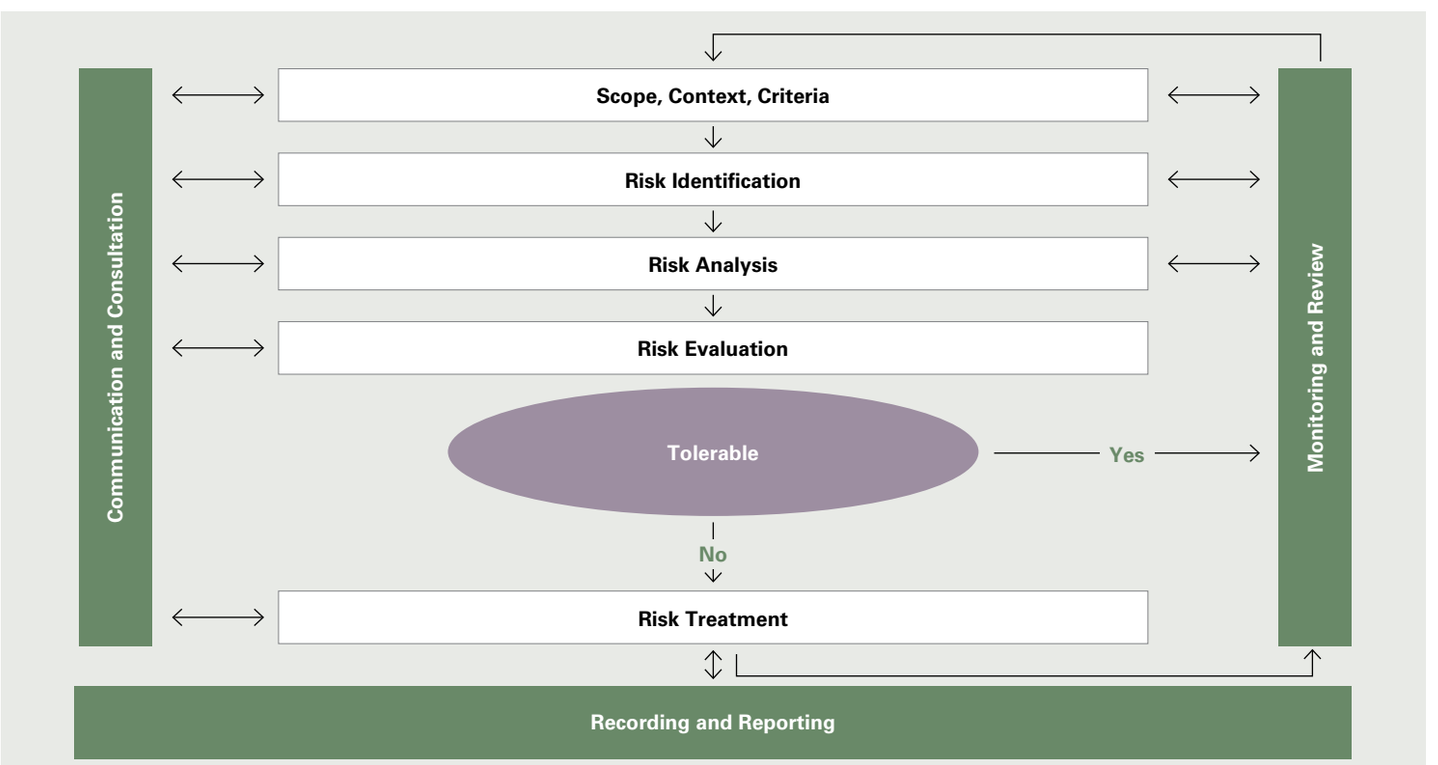
Operational Risk Management Framework

Through the adoption of the ORM framework (MS ISO 31000:2018 Risk Management – Principles and Guidelines) and robust processes, the EPF is able to manage its risks effectively by minimising the impact to an acceptable level. This framework is regularly reviewed to ensure its continuous application and relevance.

Operational Risk Management Methodology and Process

The main elements of the ORM process are as follows:

(a) **Establishing the context:** Articulates the organisation's objectives, and defines the external and internal parameters to be taken into account when managing risks.
(b) **Risk assessment:** The overall process of risk identification, risk analysis, and risk evaluation.
(c) **Risk treatment:** Actions to be taken to prevent, detect, or manage the Net Risks to an acceptable level.
(d) **Communication and consultation:** The two-way communication between Risk Management Department and stakeholders about the existence, nature, form, severity, or acceptability of risks.
(e) **Monitoring and review:** Both activities are planned and are an integral part of the risk management process that involve regular checking or surveillance.
(f) **Recording and reporting:** Risk management process where risks, its details, and minutes of meetings are recorded and reported periodically.



STATEMENT ON RISK MANAGEMENT

Corporate Risk Scorecard (CRS)

The CRS methodology incorporates the Risk and Control Self-Assessment (RCSA) module which allows employees to self-assess and update their risk profiles. The CRS is implemented through the Operational Risk Management (ORM) System that records the ownership and details of risks, controls, management actions, and incorporates changes to the risk scorecard. All business units use the risk scorecard as a tool to manage their risks effectively.

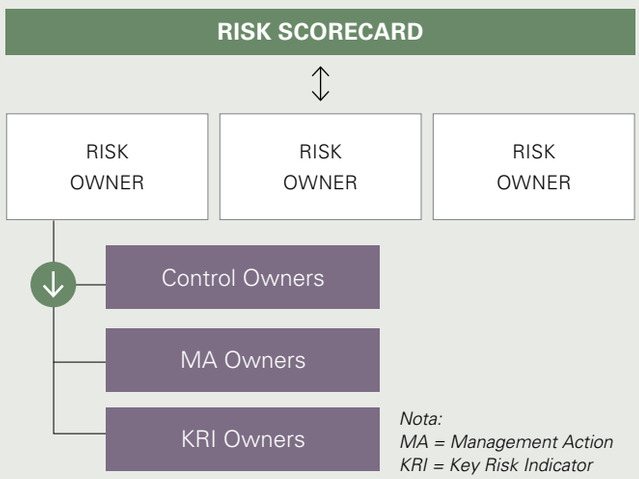
Access to the ORM system is provided on an enterprise-wide basis so that all Risk Scorecard Owners, Risk Owners, Control Owners, and Management Action (MA) Owners can undertake RCSA activities effectively. A total of 107 risk scorecards were established in 2019, comprising risk scorecards for C-Suites – Chief Executive Officer, Deputy Chief Executive Officer, Chief Investment Officer, Chief Strategy Officer, Chief Financial Officer, Chief Digital Technology Officer, 33 departments, and 68 branches. Risks in the EPF are monitored and managed through ownership from the line management, and the assurance process is implemented through the Corporate Digital Assurance (CDA) process.

Owners of scorecard, risk, control, and MA are required to provide digital assurance four times a year to the Management to give assurance that they have been managing risks within their risk profiles appropriately.

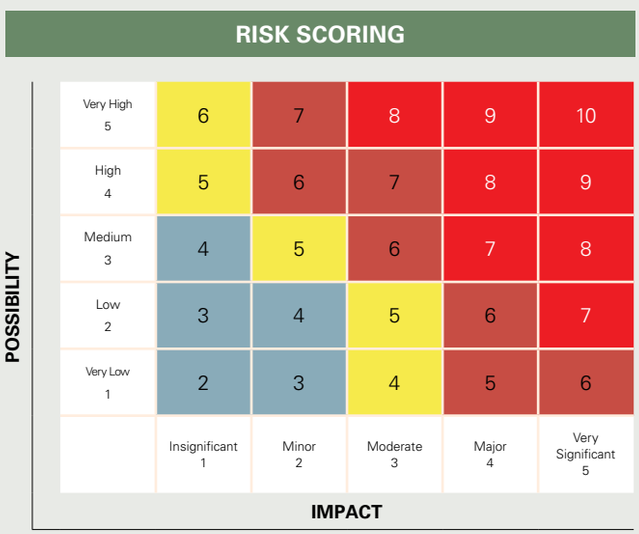
Key Risk Indicators (KRIs) identified in the risk scorecards act as an early warning system, enabling the EPF to monitor potential risks before they escalate into serious concerns.

The Risk Management Department reports and highlights risk management related issues in the Management Operations Risk Committee (MORC), Board Risk Management Committee (BRMC), and the EPF Board for their information and/or decision making on a periodic basis.

The methodology, which underlies our Corporate Risk Scorecard, is shown in the chart below:



Ownership is assigned to every scorecard, risk control, and Management Action (MA) to ensure accountability execution.



The level of risk is determined upon the assessment of Gross Risk Rating, Control Effectiveness Rating, and Net Risk Rating. The risk score of each risk factor is derived by adding the rating on possibility and impact.

BUSINESS CONTINUITY MANAGEMENT (BCM)

The implementation of BCM in the EPF is based on these three components:

(a) **Human Resource Readiness**

This refers to the development of knowledge and skills in managing disasters. The implementation is carried out through awareness trainings, tutorials, walkthroughs, call trees, crisis simulation exercises, and BCM i-learning.

(b) **Infrastructure Readiness**

The system and equipment at the disaster recovery centre are tested to ensure optimal readiness and functionality in the event of a disaster, and that the infrastructure is adequate, to cater to the business continuity activities.

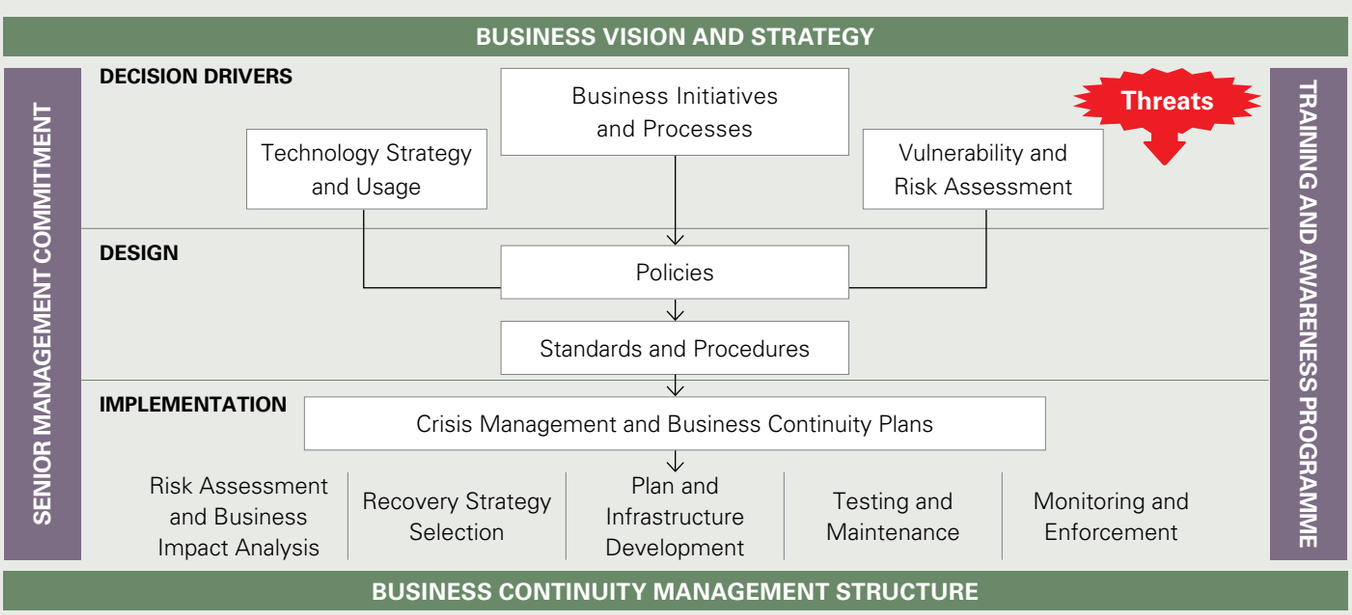
(c) **Plan Readiness**

The Business Continuity Plan (BCP) is regularly updated, based on current work functions, to ensure organisational readiness at all times. It applies to all departments and branches in EPF.

To ensure the EFP's readiness in facing disasters, unrehearsed crisis simulation exercises are conducted at selected branches annually. In 2019, one crisis simulation exercise was carried out to evaluate the branch's readiness in scenarios such as handling riots, fire, chemical leakages, cyber-attacks, together with the appropriate communication and relocation to the recovery site. The evaluation of the exercise and key recommendations were presented to the Board and Management, and also shared among EPF staff for their knowledge and learning.

The BCM Framework serves to develop a well-coordinated and consistent BCP that would allow the EPF to respond effectively to business disruptions, resume essential operations within the required time frame, and minimise the cost of damages and interruptions to business operations as a result of the disaster.

The illustration below shows the components of the EPF's BCM Framework:



STATEMENT ON RISK MANAGEMENT

INVESTMENT RISK MANAGEMENT

There are four key areas of investment risk management:

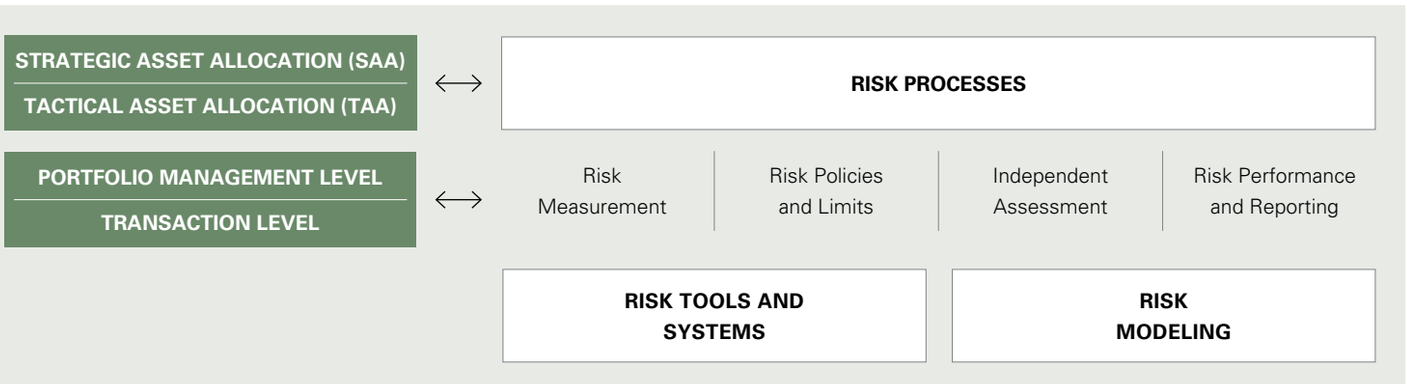
(a) Investment Risk Management Framework
(b) Market Risk
(c) Credit Risk
(d) Liquidity Risk

Investment Risk Management Framework

The Investment Risk Management Framework governs the EPF's investment processes and ensures that effective risk management controls and procedures are in place with regards to investment decision-making.

This framework provides an approach to managing and anticipating both existing and potential risks arising from the EPF's investment portfolio, and enables the EPF to have a structured process to measure, assess, monitor, and manage its portfolio risks. This ensures the EPF optimises its returns on risk-taking activities within the risk appetite level as approved by the Board.

The Investment Risk Management framework is illustrated below:



Market Risk

Market risk is the risk of loss from changes in the value of portfolios and financial instruments due to movements in interest rates, foreign exchange, and equity prices.

The objective of market risk management in the EPF is to ensure that the risk exposures undertaken by the EPF are within its risk appetite. This is done through an annual review of various policies and limits, periodic reports to monitor market risk at portfolio level for each asset class, and independent validation performed on the underlying risk methodology:

(a) **Name, ownership, country, and sector concentration limits:** to ensure appropriate diversification of risk exposures.
(b) **Value-at-Risk (VaR):** a statistical measure of the potential losses that could occur as a result of movements in market rates and prices over a specified time horizon within a given confidence level.
(c) **Duration:** to manage the sensitivity of the price of a fixed income investment arising from interest rate movement.
(d) **Tracking error:** a standard deviation of the portfolio's excess returns relative to a benchmark in measuring and benchmarking the performance of the portfolio.
(e) **Backtesting:** a validation process performed to check the accuracy of the risk methodology used in computing VaR for both fixed income and equity portfolios.
(f) **Stress testing:** an exercise conducted to capture the potential market risk exposure of 'what-if' scenarios. It incorporates factors such as correlation, volatility, and returns at different levels.

Credit Risk

Credit Risk arises when a counterparty's or an obligor's failure to meet its payment obligations results in a loss. EPF's credit risk exposure is in direct correlation towards its investing activities within fixed income instruments, private equity, real estate, and infrastructure asset classes.

The EPF's credit risk management involves detailed credit analysis, in-depth risk assessment methodology, and prudent underwriting

standards. Furthermore, EPF consistently and continuously reviews and updates its risk assessment methodology and credit underwriting standards to ensure consistency with industry or market best practices as well as being at par with other institutional peers.

At the portfolio level, the following credit risk management has been put in place to manage credit risk exposure:

(a) Credit risk limits and Management Action Triggers (MATs) incorporating minimum broad credit criteria for investment, including name concentration and counterparty exposures;
(b) Credit portfolio system to measure credit risk of the relevant portfolios using Credit Value-at-Risk (CVaR);
(c) Periodic review of existing internal credit rating templates for obligors to ensure their relevance; and
(d) Strong credit awareness or culture across the investment personnel in the EPF through active engagement with the investment personnel at all levels.

At the transaction level, the following credit risk management has been put in place to manage credit risk:

(a) Independent risk assessment is conducted for every new investment proposal presented to the Management Investment Committee and Investment Panel meetings for decision making;
(b) Close monitoring of changes to existing investments via assessments on an ad-hoc as well as periodic basis; and
(c) Credit rating tools to measure the creditworthiness or Probability of Default (PD) of the obligors are as follows:

    i) **Corporate rating template** which provides internal risk rating for corporate obligors;
    ii) **Financial institution rating template** which provides internal risk rating for financial institution obligors; and
    iii) **Credit tool** which measures the Expected Default Frequency (EDF) or Probability of Default (PD) to provide early warning signals for the EPF's close monitoring of respective obligors.

Liquidity Risk

Liquidity risk relates to the inability of the EPF to meet its financial commitments and obligations when they fall due. The EPF's liquidity risk is limited, as all contributions are mandated by the EPF Act 1991 through the deduction of salaries, and members are allowed to make withdrawals under the pre-retirement and retirement schemes. The EPF manages its liquidity requirements through:

(a) Monitoring of its daily cash flow and projecting monthly cash flow on a rolling 12-month basis;
(b) Allocating 3.00% of its asset's value for short-term instruments in the form of cash and placements in financial institutions in order to meet members' withdrawals and other financial commitments and obligations; and
(c) Diversifying its investment portfolio by setting the concentration limits on name, sector and asset type.

Over the medium and longer term, the EPF is able to meet its liquidity requirements through its holdings of liquid investments such as publicly traded equities and available-for-sale fixed-income securities. The maturity profile of the EPF's asset and liability is also monitored within a stipulated level. The Group and the EPF's financial liabilities are categorised into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date.

TECHNOLOGY RISK MANAGEMENT

The EPF understands the need to manage technology risk, given the increasing compliance and regulatory requirements in the technology and digital landscape. In this respect, the EPF continues to ensure the necessary technology risk management

The Technology Risk Management (TRM) not only provides technical support and integrates robust investment risk systems to continuously enhance risk analytical and reporting capability within the user community, but also provides independent risk assessments to enterprise-wide IT systems and projects, and recommends effective security controls to mitigate risks for better protection of mission-critical IT systems that store, process, and transmit sensitive information.

It is also a part of the Cyber Security Maturity Programme that monitors and provides assistance from the risk perspective for Information Risk Management and Business Continuity Management.

STATEMENT ON RISK MANAGEMENT **AND INTERNAL CONTROL**

This Statement is in accordance with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers (the Guidelines) issued by an industry-led task force supported by Bursa Malaysia and the Securities Commission Malaysia.

The Guidelines are also in accordance with Principle B of the Malaysian Code on Corporate Governance issued in April 2017, which states that the Board should establish an effective risk management and internal control framework.

It is with the EPF's intention to promote good corporate governance, that this statement outlines our risk management and internal control framework during the year under review.

BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility to ensure the adequacy and effectiveness of the EPF's risk management and internal control framework so that the organisation's objectives are achieved.

The framework is designed to identify, analyse and evaluate significant risks, thus providing insights to the Board, which plays a pivotal role as a risk oversight in ensuring these risks are properly mitigated. Accordingly, the internal control system is in place to manage rather than to eliminate those risks. It can, therefore, provide reasonable but not absolute assurance.

In order to effectively carry out the oversight responsibilities, three committees have been established:

(a) The Board Audit Committee (BAC) on the internal controls, governance processes and risk management, except for risk management activities related to investment decision making;
(b) The Board Risk Management Committee (BRMC) on the risk management activities, except for activities in making investment decisions; and
(c) The Investment Panel Risk Committee (IPRC) on investment risk management matters covering risk appetite, risk measurement, policies limits, except for activities involving investment operations.

More information on IPRC is provided in the Statement on Investment Risk Management in this Annual Report.

Management Responsibility

The Management is responsible for implementing the Board's policies and procedures on risk and control, comprising of these roles:

(a) Identifying relevant risks in achieving the EPF's objectives and strategies;
(b) Designing, implementing and monitoring the risk management and internal control framework in accordance with the EPF's strategic vision and overall risk appetite; and
(c) Identifying changes to risks or emerging risks, taking appropriate action and keeping the Board informed on a timely basis.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The EPF has in place an effective risk management and internal control framework as part of good corporate governance practice.

It adopts the Three Lines of Defence Model. The first line is represented by departments and branches, which are responsible for establishing a risk control and incorporating all risk controls in their day-to-day operations.

The second line of defence is represented by the Risk Management Department, which develops the risk management framework, policy, methodologies, and tools for the management of key risks in the organisation.

The Internal Audit Department, being the third line of defence, reviews the key activities of the EPF's businesses, and evaluates the effectiveness and adequacy of the internal control system, operational risk management, and governance processes.

The key systems and processes that the Board has established for the purpose of reviewing the adequacy and effectiveness of the risk management and internal control framework are as follows:

Risk Management Framework

The Board has adopted an Operational Risk Management (ORM) Framework based on the ISO 31000:2018 Risk Management – Guidelines, which outlines the principles, policies, and processes in managing the EPF's enterprise risks.

Clear lines of responsibility and accountability has been established for the risk management process. The principal risk and control responsibilities under the risk management structure comprise of:

(a) The Board Risk Management Committee (BRMC), overseeing all operational risk management activities and ensures that appropriate risk management processes are in place and functioning effectively. The Committee reviews and recommends risk management strategies and assesses the adequacy of the risk management framework.

(b) The BRMC is assisted by the Management Operational Risk Committee (MORC), which reviews the risk management framework and ensures that it is implemented effectively throughout the organisation.

Internal Control Framework

The EPF adopts guiding principles for its internal control mechanism based on the COSO Internal Control Integrated Framework, which outlines the five interrelated control components - control environment, risk assessment, control activities, information and communication, and monitoring.

The Internal Audit Department provides the BAC with an independent and reasonable assurance on the adequacy and effectiveness of the risk management and internal control framework. The Committee is responsible for reviewing internal control issues identified in reports prepared by both the internal and external auditors.

The BAC also further reviews the internal audit function, with particular emphasis on the internal audit's independence, scope, resources and quality of internal audits.

Details of the activities undertaken by the Committee are further described in the Board Audit Committee (BAC) Report and the Statement on Internal Audit in this Annual Report.

KEY ELEMENTS OF INTERNAL CONTROL

CONTROL ENVIRONMENT

The control environment sets the tone of an organisation, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Key activities include:

Terms of Reference

Clearly defined terms of reference on the roles and responsibilities of all EPF Board committees and the Investment Panel, as stated in the Statement on Corporate Governance.

Organisational Structure

The EPF organisational structure has clearly-defined lines of accountability, delegation of responsibility, and levels of authorisation for all aspects of the business. Management committees meet on a regular basis to identify, discuss and resolve operational, financial, investment and key management issues, and periodically report to the Board, Investment Panel, and its respective committees.

In 2019, several changes in the organisational structure of the EPF were made. Under the Investment Division, the Department of Investment Operations was established in January, comprising of Investment Services, Investment Transformation, and Shariah Services.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

KEY ELEMENTS OF INTERNAL CONTROL

With the advent of the Fourth Industrial Revolution, the EPF formed the EPF EVO project team to develop a digital blueprint for the organisation. The blueprint serves as an antecedent to strengthen organisational strategy and digital capabilities so that the EPF remains relevant and prepared to meet future customers' expectations.

To support this endeavour, the Information Technology Department had been expanded into a division with various key specification areas, comprising four departments and two sections.

Human Resource Policies and Procedures

Proper guidelines outlining procedures involving the hiring and termination of employees, implementation of training programmes, annual employee performance appraisals, and other relevant procedures, are established to ensure that employees are adequately trained and own a certain level of competencies to carry out their tasks and responsibilities.

Culture of Integrity

Entrusted with managing members' savings, various programmes and initiatives are in place to inculcate and uphold the culture of integrity, such as timely declarations of assets by staff, declarations of conflict of interest in both procurement and investment processes as well as a no-gift policy.

The Corporate Integrity Pledge is a commitment by the EPF to uphold integrity, which is essential to create a business and operating environment that is transparent and in line with global best practices in governance.

The EPF has adopted an Anti-Corruption Statement and implemented a zero-tolerance policy on corruption and unethical behaviour in its operations.

In 2019, the Corruption Risk Management (CRM) process was introduced as an additional measure to monitor activities that have high exposure to potential corruption risks. The CRM helps to identify structural weaknesses that may lead to corruption, provides a framework for all staff to take part in identifying risk factors and treatments, and embeds corruption prevention in the organisation.

Code of Ethics

The EPF Code of Ethics provides guidance for employees to carry out their duties and responsibilities that are consistent with the EPF's Vision, Mission, and Shared Values. The Code serves to clarify ethical behaviours that are in accordance with the relevant laws, policies and procedures.

RISK ASSESSMENT

Risk assessment involves a dynamic and ongoing process of identifying and assessing risks that may impede the achievement of objectives. Key activities include:

Corporate Risk Scorecard (CRS)

The Corporate Risk Scorecard (CRS) methodology is a detailed risk management approach where risks are identified based on internal and external sources, and are analysed, evaluated, treated, monitored, and reported.

The CRS allows for continuous Risk and Control Self-Assessment (RCSA) to be performed so employees can self-assess and update their risk profiles.

CONTROL ACTIVITIES

Control activities are policies and procedures that ensure management directives are carried out effectively. This include necessary actions taken to mitigate the risks that impede the achievement of the organisation's objectives. Key activities include:

Business Performance Management

The EPF uses the Balanced Scorecard (BSC) methodology to operationalise its strategies aligned to its Vision and Mission, and to drive performance. The business performance is measured through a set of Key Performance Indicators (KPIs), integrated with risk management to enable the EPF to identify and monitor key risks impacting its business objectives.

Three-Year Rolling Plan

The EPF's Three-Year Rolling Plan incorporates pertinent outcomes, key priorities, and strategic initiatives to be implemented for the next three years to meet both the immediate and medium- to long-term objectives of the organisation. It is reviewed by the relevant management committees and approved by the Board.

Risk Culture Index

To enhance risk management practices in the EPF, the Risk Culture Index is incorporated as KPI for all departments and branches.

Policies and Procedures

Policies and procedures are set out in guidelines, directives, operation manuals, and work instruction documents issued by the EPF to ensure compliance with internal controls such as segregation of duties, independent checks, verification processes and system access controls.

These are updated regularly and signed off by the respective Heads of Departments, Heads of Divisions and the Chief Executive Officer. Policy guidelines and delegated authority limits are also imposed on the Management with regards to day-to-day operations.

Information Technology Security Management

Information security management in the EPF is based on ISO 27001, which outlines the appropriate controls and procedures to ensure confidentiality, integrity, and availability of information and application systems.

The EPF security architecture and design are constantly reviewed and improved to strengthen security controls and mitigate key technology and cyber risks. Efforts were already underway in 2019, to develop a Technology Risk Management Framework (TRMF) for the EPF to ensure the adoption of a risk-based approach towards managing technology risk and cyber security. This framework covers areas such as Governance, Risk Management, Audit, Technology Operations, Cyber Resilience, and Employee Awareness.

Chinese Wall Policy

The Chinese Wall Policy and its procedures are issued to safeguard against any compromise on the tenets of integrity, transparency and accountability by controlling, restricting, and managing the flow of price sensitive information.

Business Continuity Management (BCM)

The BCM plans and systems are regularly monitored, tested, updated, and communicated to all levels to ensure that the EPF is prepared in the event of a crisis or disaster.

Insurance Coverage

Adequate insurance coverage of major assets is in place to ensure protection against incidents that could result in material loss.

Shariah Governance Framework

The EPF has established a Shariah governance framework since 2016 to ensure strict adherence to Shariah requirements in managing Simpanan Shariah. The establishment of a dedicated Shariah Services Section in the Investment Operations Department, is to undertake Shariah functions related to Shariah research and advisory, Shariah compliance review and monitoring as well as Shariah risk management as part of the first and second lines of defence under the Shariah governance framework. The framework outlines the Shariah governance structure and policies as deliberated under the Statement on Shariah Governance for Simpanan Shariah in the Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

KEY ELEMENTS OF INTERNAL CONTROL

INFORMATION AND COMMUNICATION

Information and Communication support all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allow people to carry out their duties. Key activities include:

Fraud Control Management Plan

The Fraud Control Management Plan, which includes Fraud Risk Assessment, Anti-Fraud Policy and Whistleblower Protection Policy, outlines the EPF's approach to the prevention, detection, reporting, and handling of fraud.

Communication of Operational Risk Management (ORM)

The ORM principles, framework, and processes adopted by the EPF are communicated to all employees for better understanding of the practices adopted.

MONITORING

Ongoing monitoring and evaluation of the effectiveness of internal control are built into business processes at different levels of the organisation. Key activities include:

Operational Risk Management System

An integrated operational risk management system is used to monitor and manage the EPF's risk exposure. Key risks are identified and the effectiveness of internal control is assessed and electronically confirmed by the respective departments and branches on a timely basis. If the mitigated risks are not within acceptable levels, individual action plans will be identified and implementation monitored to reduce the gap.

Regular Reporting

Adequate processes are in place to discuss issues on risk management and internal control deficiencies, which are reported regularly to the Management through various committees. The Management evaluates and communicates to parties responsible for taking corrective action in a timely manner.

Monitoring Activities by Internal Audit

The results of all audit engagements are reported to the Board Audit Committee (BAC) and communicated to the Management. The Internal Audit Department maintains a follow-up process to monitor and help ensure all the agreed audit observations and resolutions have been promptly addressed.

Quality Management Standard

All the EPF's core processes comply with the MS ISO 9001:2015 Quality Management System.

ASSURANCE ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is of the opinion that the EPF's risk management and internal control framework are effective to safeguard the interests of EPF members. The Board's review of the effectiveness of the risk management and system of internal control is supported by:

(a) The Board Risk Management Committee (BRMC), which meets a minimum of four times a year to oversee risk management activities;

(b) The Board Audit Committee (BAC), which meets a minimum of four times a year, reviews the areas of concerns and recommendations identified by the internal and external auditors;

(c) The Auditor-General's issuance of the annual audit certificate on the financial statements; and

(d) The Management's assurance that the EPF's risk management and internal control framework is operating adequately and effectively in all material aspects.

This statement is made in accordance with the resolution of members of the Board dated 29 April 2020.